DD ALTERNATIVE FUND

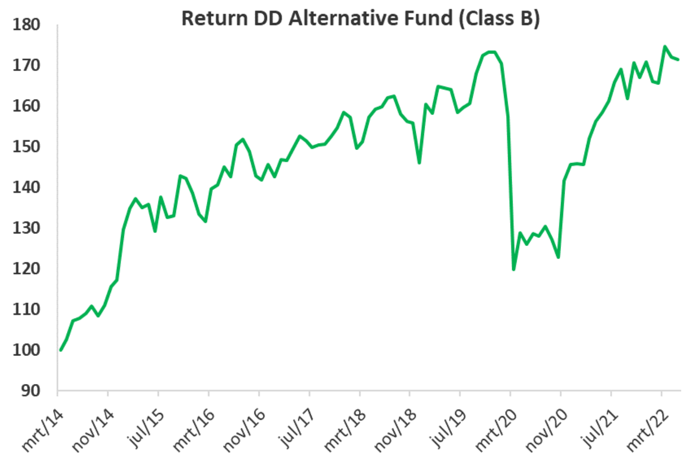
Monthly report May 2022

Profile

DD Alternative Fund N.V. (DDAF or DD Alternative Fund) is a global sustainable equity fund that invests in alternative investment categories, including in particular companies that invest in real estate and infrastructure. DDAF invests in at least twenty companies that meet our quality investment criteria. At DDAF, the analysis on sustainability and financial aspects is fully integrated. The fund aims for a net return of 7%* per year in the long term and has no benchmark. DDAF is listed on Euronext in Amsterdam and can be traded daily.

Return class B*

DD Alternative Fund achieved a return of -0.3% (class B) for the month of May 2022. At the end of May 2022, the net asset value per share B amounted to € 34.90, bringing the return for 2022 to 0,32%.



Fund information

Key facts

Fund size	€ 45.5 mln
# shares A	325,878
# shares B	692,357
# shares C	296,714
Net asset value A*	€ 33.57
Net asset value B*	€ 34.90
Net asset value C*	€ 35.07
# positions	48

Costs

Management fee A	1.20%
Management fee B	0.70%
Management fee C	0.50%
Overige kosten**	0.45%
Op- en afslag	0.25%

Other

Start date	Class A: May 2005 Class B: January 2015 Class C: January 2020
Manager	DoubleDividend Management B.V.
Status	Open-end, dagelijks
Exchange	Euronext Amsterdam
ISIN (A)	NL0009445915
ISIN (B)	NL0010949350
ISIN (C)	NL0014095119
Benchmark	None
Currency	Euro

Risk monitor

* per share

** estimated

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Table: monthly total return in % (after costs. dividend included) *

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2012	1.53	2.02	4.59	-3.24	-2.34	1.51	3.09	-0.18	1.49	2.56	0.48	-0.02	11.81
2013	0.83	0.72	-1.41	4.38	1.39	-7.59	2.56	-1.31	3.14	2.61	-0.81	-0.67	3.35
2014	-0.47	5.76	-1.86	2.69	4.37	0.54	1.24	1.66	-2.20	2.36	4.13	1.48	21.18
2015	10.58	3.96	1.72	-1.51	0.52	-4.86	6.54	-3.70	0.32	7.37	-0.40	-2.56	18.13
2016	-3.76	-1.28	6.08	0.71	3.13	-1.62	5.37	1.01	-1.97	-4.02	-0.70	2.66	5.13
2017	-2.14	3.02	-0.13	2.01	2.08	-0.83	-1.11	0.45	0.11	1.32	1.34	2.44	8.74
2018	-0.74	-4.78	1.03	3.91	1.37	0.32	1.40	0.29	-2.75	-1.15	-0.21	-6.35	-7.82
2019	9.85	-1.37	4.20	-0.25	-0.27	-3.32	0.67	0.65	4.62	2.61	0.42	0.02	18.63
2020	-1.55	-7.63	-23.87	7.51	-2.27	2.09	-0.42	1.90	-2.56	-3.42	15.36	2.84	-15.88
2021	0.03	-0.08	4.41	2.80	1.41	1.66	2.96	1.82	-4.23	5.47	-2,10	2.28	17.27
2022	-2.82	-0.22	5.37	-1.50	-0.32								0.32

* From 2015 Class B shares returns are used. The value of your investment may fluctuate. Results achieved in the past do not provide any guarantees for the future.

Developments in the market and portfolio

The European real estate equity market could not escape the negative stock market sentiment in May either. The FTSE EPRA Developed Europe Index lost 4.1% last month, increasing its loss for the year to 14.0%. Renewable infrastructure closed the month virtually unchanged, once again faring well as a result of continued high energy prices and the focus of governments and companies on making energy supplies more sustainable.

The DD Alternative Fund ended the month with a small loss of 0.3%. The fund is performing reasonably well this year given the difficult market conditions. Renewable infrastructure companies such as, Boralex, Brookfield Renewables, EnergieKontor and Grenery Renovables were the biggest contributors to earnings this year. The take-over of Hibernia REIT and the strong recovery of Eurocommercial Properties were also major contributors. On the other hand, the share prices of residential players Vonovia, LEG and Irish Residential fell sharply in the first five months of 2022. It is clear that the market is pricing in future declines in value due to sharply rising interest rates. Whether it comes to that remains to be seen as market rents are still rising and current leases can usually be adjusted for inflation. This allows these companies to absorb an increase in initial yields.

As outlined in previous monthly reports, there are plenty of reasons for investors to be concerned: high inflation rates, energy price shocks, a war in Ukraine, and central banks betting on interest rate hikes just as the economy begins to sputter. As a result of these uncertainties, financial markets have now shown a considerable correction. The listed real estate sector is also doing badly this year, while in the direct real estate market shows little sign of weakness and management teams are not yet negative about the development of both value and rental growth. The question is therefore whether the glass is half empty or half full. To answer this question we look at the quality of real estate, the impact of (cost) inflation, the sustainability of the current high real estate valuations, the financial health and financing needs of companies and the current valuations on the stock market.

Quality of real estate

The quality of the real estate portfolios of listed companies is generally high, and that certainly applies to the companies in our portfolio. Since the corona crisis we have seen a further strengthening of the trend that tenants have a preference for high-quality and sustainable property, a favourable development for the companies in our portfolio.

Impact of (cost) inflation

Almost all leases are automatically indexed, which increases rental income. For the time being, this has not resulted in the current rent being higher than the market rent, but this is a point for attention. This applies mainly to offices and retail, but not, for example, to logistics real estate and certainly not to residential real estate. Cost inflation (higher energy prices, material and labor costs) is especially important for developers as it puts pressure on margins. For the time being we see that margins have not or only minimally decreased as the higher costs are passed on to tenants.

Property values
It is realistic to assume that initial yields will rise somewhat due to the higher interest rates, something that is also recognized by many companies. However, this does not have to lead to a (sharp) decline in property values since the higher rents often compensate for this. Only a deep recession with strong pressure on rents can cause the value of real estate to come under significant pressure.

Financial health
A strong balance sheet is necessary when property values decline. Here companies have learned from the financial crisis so that nowadays there is much less debt financed compared to the past. Yet the debt ratio does not tell the whole story as the net debt to cash flow ratio is higher for some companies than in the past. Some caution is therefore required, especially given that both interest rates and interest rate spreads have risen sharply in recent months. Companies are easily paying 1.5% to 2.5% more on a bond compared to six months ago. Interest rates on bank loans have risen less sharply, but banks cannot replace the entire bond market. For now, increased interest rates are not a problem for most companies since interest rates are fixed for long periods of time and the maturity of the loans is long. Nevertheless, over time the average cost of debt will rise if interest rates remain at current levels.

Stock market valuations
Finally, the valuation of many real estate companies is attractive, especially after the recent decline. Most companies are at a decent discount to net asset value and have a high cash flow yield. As indicated above, only a deep recession, with rents coming under severe pressure, will cause property values to drop significantly and the current discount to disappear. However, this is not our base case scenario.

Largest positive and negative contribution

Sustainable infrastructure provided the biggest positive contribution in May. Spain's Grenery Renovables did particularly well last month with a rise of almost 14% which has already pushed its share price up by almost 35% this year. We recently had a conversation with the company where the management is very optimistic about the growth prospects. The company expects to deliver on average 1GW per annum of sustainable infrastructure projects with a focus on solar parks and energy storage in Europe and South America. Nevertheless, we took some profit on the position as the valuation has risen considerably in the meantime.

The largest negative contribution came from Prologis, which fell almost 22%. The largest investor in logistics centers suffered from the announcement by Amazon that the company has a surplus of logistics space. After the strong demand during the pandemic, Amazon is even trying to sublet space in some cities. We took advantage of the drop to extend the position again after selling pieces at significantly higher levels a few months ago. Prologis' long-term prospects are very good and Amazon will do little to change that.

Table: top 5 contribution to result (in €)

Top 5 highest contribution			Top 5 lowest contribution		
Grenery Renovables (Spa)	13.9%	0.2%	Prologis (US)	-21.7%	-0.4%
Atlantica Sustainable (US)	5.4%	0.2%	SL Green (US)	-11.7%	-0.2%
7C Solarparken (Ger)	10.5%	0.2%	Digital Realty (US)	-5.9%	-0.2%
China Longyuan (Chi)	7.7%	0.2%	Scatec (Nor)	-17.9%	-0.2%
American Tower (US)	4.7%	0.1%	Greencoat UK Wind (UK)	-6.2%	-0.1%

Source: DoubleDividend/Bloomberg

Portfolio changes

Over the past month, we have slightly reduced the weighting of Aquila, Grenery and Supermarket Income REIT and slightly increased positions in CTP, Digital Realty, Equinix, Prologis and Shurgard. Hufvudstaden has been added back to the portfolio. We had sold the last shares at substantially higher levels last year. Because of the negative sentiment in the stock market, another nice entry point has arisen.

The Swedish real estate company Hufvudstaden was founded more than 100 years ago by Ivar Kreuger, the developer of the Olympic stadium and department store NK, among others. NK is still part of the portfolio and recently transformed into a luxury department store with both international and local brands and plenty of space for new concepts such as Seezona, a digital marketplace for young designers.

Hufvudstaden has a portfolio of only 20 properties containing offices, stores and restaurants in the best locations in Stockholm and Gothenburg. The company is very conservatively financed, a big advantage in the current market environment. The corona crisis had a major impact on the company, causing vacancy rates to rise and profits to fall somewhat. In the meantime, the company is running again as usual, helped by the revival of the Swedish economy. The largest shareholder is the Lundberg family who have held a large stake since 1998. The current management also has an interest in the company and recently increased their stake substantially, which ensures like-minded interests.

Table: top 10 positions in portfolio per end month

Company and weights			
Vonovia (Ger)	4.7%	Atlantica Sustainable (US)	3.0%
Greencoat Renewables (Ire)	3.3%	Innergex Renewable (Can)	2.9%
Eurocommercial Prop (Neth)	3.2%	I-RES (Ire)	2.8%
Digital Realty (US)	3.1%	American Tower (US)	2.8%
Mitsui Fudosan (Jap)	3.1%	Boralex (Can)	2.7%

Source: DoubleDividend

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Annex: portfolio characteristics

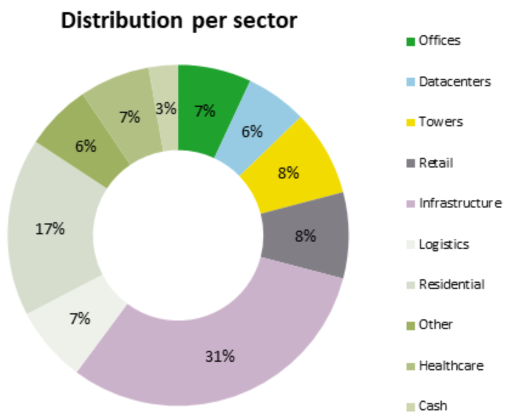
The table below shows the main characteristics of the portfolio. The cash flow yield shows the direct return (the rental income less costs) compared to the current price. Revaluations of the real estate are therefore not included. The price to net asset value indicates whether the portfolio is trading at a premium or a discount in relation to the value of the underlying real estate. If this value is lower than 100%. then there is a discount to net asset value and vice versa. The dividend yield is the dividend yield of the current year divided by the current price (closing price of the month).

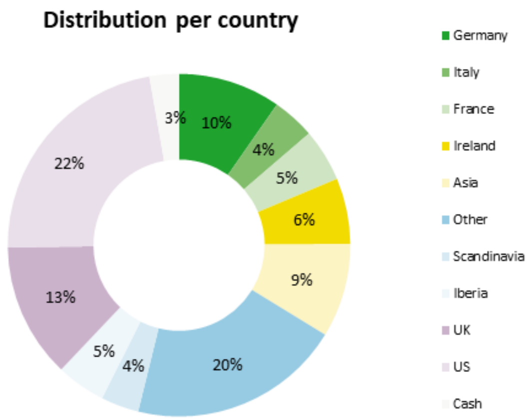
The debt ratio is the net debt to the market value of the property. The VAR (Value At Risk) shows the maximum loss of the portfolio on an annual basis with 95% certainty based on Monte Carlo simulation. The standard deviation is a statistical measure for the distribution of the returns around the mean.

Table: Characteristics DDAF per month end

Valuation		Risk	
Cashflow yield, current	6.0%	VAR (Monte Carlo, 95%, 1-year)	22.7%
Dividend yield, current	3.5%	Standard deviation	15.8%

Source: DoubleDividend/Bloomberg





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